

*M/047/010
Bonanza Mines*

American Gilsonite Company
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Fax

To: _____ From: Ted Stevens
Fax: _____ Pages: *7 total*
Phone: _____ Date: 8/16/01
Re: _____ CC: _____

☐ Urgent ☐ For Review ☐ Please Comment ☐ Please Reply

Wayne, you really need the email explanation for the Excel spreadsheet. Please circulate this page to the appropriate staff people who will evaluate our proposal against guidelines. Thanks

If you have any comments or questions, please call me at your convenience at 650-233-7166. Thank you.

Best regards,

Ted Stevens VP & General Counsel for American Gilsonite Company

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AUG 16 2001

DIVISION OF
OIL, GAS AND MINING

mrtfs3

From: "mrtfs3" <mrtfs3@pacbell.net>
To: "Wayne Hedberg" <nrogm.whedberg@state.ut.us>
Sent: Wednesday, August 15, 2001 10:25 AM
Attach: Reclamation-Escrow analysis.xls
Subject: Re: American Gilsonite Escrow Agreement Proposal

----- Original Message -----

From: mrtfs3
To: nrogm.whedberg@state.ut.us
Sent: Wednesday, August 08, 2001 11:41 AM
Subject: escrow guidelines proposal

Hello Wayne,

Thank you for speaking with me the other day by telephone about the state's escrow program for providing reclamation coverage. As I mentioned, we have developed a proposal for setting escrow guidelines for the state's consideration. I don't know if the state has this authority under the statute and regulations, but we put it on the table for discussion.

Attached to this email, you should find an excel file with four pages labeled "low risk," "high risk" "medium risk" and "net worth reduced".

Let me see if I can explain how these charts work.

Starting with the page "low risk", you can see a box to the far left that says "Company xyz". In it, we have assumed a company with total assets of \$8 million, a net worth of \$4 million and a reclamation liability of \$500,000. Dividing the net worth by the reclamation liability gives you a "net worth coverage" of 9.00. Total liabilities divided by net worth gives an 1.00. We also assumed for this example, that the mine has a proven remaining life of 20 years.

In the next box, are our proposed guidelines for establishing an escrow for the reclamation liabilities. You can see that if the net worth coverage (NWC) is less than 1.0, we propose that the downpayment should be 100%, with a sliding scale as the NWC gets higher. We also suggest a "remaining life multiplier" that would operate to determine how many years over which the company would have to make payments in order to put the entire amount into escrow. We propose a cap of 20 years no matter what the real life of the mine for additional risk management.

In this example, since the life of the mine is 20, that is multiplied by 0.4 (because the NWC is between 7.5 and 10). Going to the last box on the page, you can see that in this "low risk" scenario, the company would put \$50,000 in escrow, pay \$56,250 per year, over 8 years. Assuming 7% interest, however, the total liability is reached by the 7th year. You can also see that each year, the "updated NWC" goes up rapidly, assuming no increase net worth.

These figures are in formulas in the chart so your financial people can change the numbers if they want to play with the concept.

Doing just that, in the next two pages, "high risk" and medium risk, we ran the same formulas with examples using the same "\$8 million company" but with a higher reclamation liabilities and greater total liabilities. Finally, we ran the formulas using an example of what would happen if, in the middle of the escrow payments, the "low risk" company had its net worth reduced from \$4 million to \$1 million.

We hope that you will pass this on to the appropriate staff to evaluate as a proposal for setting up some guidelines on the escrow program. We recognize that it would be most likely used by small companies in pretty good financial shape but unable to obtain bonding in this market. A major advantage for the state would be once the funds are in the account, the state has an even better assurance that reclamation liabilities will be met, without regard to whether the bonding company or the mining company is solvent or rated high enough for the new surety rules. The money would be there and continuing to grow, possibly covering all or part of any future reclamation liabilities as well. Finally, it would give some needed flexibility to smaller companies in terms of operating cash flow, keeping them more financially stable and thus reducing some risk to the state.

I hope that my attempted explanation is adequate to get someone familiar with the attached formulas. Please give me a call at 650 233-7166 if you have any questions. I would be more than happy to meet with you in Salt Lake City to discuss this further. Thank you for your time and consideration.

Ted Stevens
VP & General Counsel
American Gilsonite Company

COMPANY XYZ		
Total Assets	\$	8,000,000
Net Worth	\$	4,000,000
Total Liabilities	\$	4,000,000
Reclamation Liability	\$	500,000
Net Worth Coverage		9.00
Tot. Liabilities/Net Worth		1.00
Remaining Life in Years		20

Escrow Guidelines		
NWC	Down Pmt.	R.L. Multiplier
NWC < 1.0	100%	0.1
1 < NWC < 2.5	50%	0.2
2.5 < NWC < 5	35%	0.3
5 < NWC < 7.5	20%	0.4
7.5 < NWC < 10	10%	0.5
NWC > 10	0%	

Year	Beginning \$ in Escrow	Yearly Contribution	Interest	Ending \$ in Escrow	Updated NWC
1	\$ 50,000	\$ 56,250	7%	\$ 53,500	9.96
2	\$ 53,500	\$ 56,250	7%	\$ 117,433	11.46
3	\$ 117,433	\$ 56,250	7%	\$ 185,840	13.73
4	\$ 185,840	\$ 56,250	7%	\$ 259,037	17.60
5	\$ 259,037	\$ 56,250	7%	\$ 337,357	25.59
6	\$ 337,357	\$ 56,250	7%	\$ 421,159	51.74
7	\$ 421,159	\$ 56,250	7%		
8					

"Low Risk" Page

COMPANY XYZ	
Total Assets	\$ 4,500,000
Net Worth	\$ 1,000,000
Total Liabilities	\$ 3,500,000
Reclamation Liability	\$ 750,000
Net Worth Coverage	2.33
Tot. Liabilities/Net Worth	3.50
Remaining Life in Years	14

Escrow Guidelines		
NWC	Down Pmt.	R.L. Multiplier
NWC < 1.0	100%	0.1
1 < NWC < 2.5	50%	0.2
2.5 < NWC < 5	35%	0.3
5 < NWC < 7.5	20%	0.4
7.5 < NWC < 10	10%	0.4
NWC > 10	0%	0.5

Year	Beginning \$ in Escrow	Yearly Contribution	Interest	Ending \$ in Escrow	Updated NWC
1	\$ 375,000		7%	\$ 401,250	3.87
2	\$ 401,250	\$ 267,857	7%	\$ 715,945	30.36
3	\$ 715,945	\$ 267,857	7%	\$ 1,052,668	
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"High Risk" page

COMPANY XYZ	
Total Assets	\$ 8,000,000
Net Worth	\$ 4,000,000
Total Liabilities	\$ 4,000,000
Reclamation Liability	\$ 1,250,000
Net Worth Coverage	4.20
Tot. Liabilities/Net Worth	1.00
Remaining Life in Years	16

Escrow Guidelines		
NWC	Down Pmt.	R.L. Multiplier
NWC < 1.0	100%	0.1
1 < NWC < 2.5	50%	0.2
2.5 < NWC < 5	35%	0.3
5 < NWC < 7.5	20%	0.4
7.5 < NWC < 10	10%	0.4
NWC > 10	0%	0.5

Year	Beginning \$ in Escrow	Yearly Contribution	Interest	Ending \$ in Escrow	Updated NWC
1	\$ 437,500		7%	\$ 468,125	6.12
2	\$ 468,125	\$ 253,906	7%	\$ 772,573	9.38
3	\$ 772,573	\$ 253,906	7%	\$ 1,098,333	27.37
4	\$ 1,098,333	\$ 253,906	7%	\$ 1,446,886	
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11 "Medicon Plus" page

COMPANY XYZ	
Total Assets	\$ 8,000,000
Net Worth	\$ 4,000,000
Total Liabilities	\$ 4,000,000
Reclamation Liability	\$ 500,000
Net Worth Coverage	9.00
Tot. Liabilities/Net Worth	1.00
Remaining Life in Years	20

Escrow Guidelines		
NWC	Down Pmt.	R.L. Multiplier
NWC < 1.0	100%	0.1
1 < NWC < 2.5	50%	0.2
2.5 < NWC < 5	35%	0.3
5 < NWC < 7.5	20%	0.4
7.5 < NWC < 10	10%	0.4
NWC > 10	0%	0.5

Net Worth Reduced to \$ 1,000,000

Year	Beginning \$ in Escrow	Yearly Contribution	Interest	Ending \$ in Escrow	Updated NWC
1	\$ 50,000	\$	7%	\$ 53,500	9.86
2	\$ 53,500	\$ 56,250	7%	\$ 117,433	11.48
3	\$ 117,433	\$ 56,250	7%	\$ 185,840	4.18
4	\$ 185,840	\$ 132,353	7%	\$ 340,467	26.07
5	\$ 340,467	\$ 132,353	7%	\$ 505,917	
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7					
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"NWC reduced" page